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[Authority and Resources of the Deputy Assistant Secretary of Defense (Audit)]. FGMSD-77-52; B-134192. July 14, 1977. 7 pp. + enclosure (1 pp.).

Report to Rep. Jack Brooks, Chairman, House Committee on Government Operations: Legislation and National Security Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Internal Auditing Systems (200); Internal Auditing Systems: Sufficiency of Federal Auditors and Coverage (201).

Contact: Financial and General Management Studies Div.

Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of Defense: Deputy Assistant Secretary (Audit).

Congressional Relevance: House Committee on Government Operations: Legislation and National Security Subcommittee.

Authority: National Security Act of 1949 (10 U.S.C. 136). DOD Directive 7600.2.

The Deputy Assistant Secretary of Defense (Audit) has the responsibility to develop internal audit policy and to review its implementation, but he does not have the authority to provide policy and procedural direction to the military service internal audit agencies. He has sufficient resources to develop internal audit policy, but may not have sufficient resources to review its implementation. He may develop policy and evaluate the implementation of policies that have been approved by the Assistant Secretary of Defense (Comptroller). Recommendations: To improve the internal audit function in the Office of the Secretary of Defense, the Secretary of Defense should: combine the audit policy, audit operations, and reporting functions into one functional organization; require the head of the combined organization to periodically review the implementation of policy and procedural directives by the military services and other internal audit organizations in the Department of Defense and to provide formal, written reports on policy violations directly to the Secretary or Deputy Secretary of Defense; and give careful consideration to required workload and the capabilities of the staff to perform that workload and bring the two into balance before making further staff reductions in the internal audit function. (SC)

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WASHINGTON, D.C. 20548

JUL 14 1977

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*10/4/77*

S-134192

The Honorable Jack Brooks, Chairman  
Legislation and National  
Security Subcommittee  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

In your February 24, 1977, letter you asked us to review the authority and resources of the Office of the Deputy Assistant Secretary of Defense (Audit) to provide policy and procedural direction to the military services' internal audit agencies. You also requested that we include recommendations outlining how improvements in this area may be accomplished.

We have completed our review and found that

- the Deputy Assistant Secretary has the responsibility to develop internal audit policy and review its implementation but does not have the authority to provide policy and procedural direction to the military service internal audit agencies and
- the Deputy Assistant Secretary has sufficient resources to develop internal audit policy but may not have sufficient resources to review its implementation.

Details of these and other findings resulting from our review are explained below.

OFFICE OF THE ASSISTANT SECRETARY  
OF DEFENSE (COMPTROLLER)

The position of Assistant Secretary of Defense (Comptroller) was established by the National Security Act of 1949 (10 U.S.C. 136). The Comptroller's position carries staff responsibilities for establishing and supervising the execution of principles, policies, and procedures for internal audit in the Office of the Secretary of Defense, Defense agencies, and the military services. The law provides that in carrying out staff responsibilities, the Assistant Secretary (and all other Assistant Secretaries) take precedent in the Department of Defense organizational structure after the Secretary, the Deputy Secretary of Defense, the Secretaries of the military services, and the Director, Defense Research and Engineering.

The law further specifies that the Assistant Secretary cannot issue an order to military departments unless authorized to do so by the Secretary of Defense. However, there is also a provision that service Secretaries and subordinate civilian and military personnel will cooperate fully with personnel of the Office of the Secretary of Defense to effectively carry out the Secretary's authority, direction, and control.

Specific internal audit responsibilities have been delegated to the Comptroller. These are implemented in DOD Directive 7500.2 and include responsibility for internal audit policy, evaluating the operations of all Defense internal audit agencies, and taking such actions as may be necessary to assure implementation of the Defense-wide internal audit policies set forth in the directive and related instructions. Also, DOD Directive 5118.3 specifically authorizes the Comptroller to issue such orders--in the form of instructions and one-time directives as may be necessary to provide internal audit policy and procedural direction to all Department of Defense and military service internal audit agencies.

Office of the Deputy Assistant  
Secretary of Defense (Audit)

The Deputy Assistant Secretary of Defense (Audit) holds both staff and line responsibilities under the direction of the Comptroller. He is both the Deputy Assistant Secretary, reporting directly to the Comptroller on audit policy and reporting matters, and the Director of the recently created Defense Audit Service, reporting directly to the Secretary of Defense on the results of internal audit operations. However, the Secretary does not provide day-to-day supervision of the Defense Audit Service but relies on the Comptroller to provide such supervision.

The Comptroller has delegated to the Deputy Assistant Secretary staff responsibilities for developing internal audit policy and evaluating its implementation by all Defense internal audit agencies.

In his role as Director, Defense Audit Service, the Deputy Assistant Secretary exercises line authority over (1) audits by Defense Audit Service staff of interservice audits, (2) audits requested by the Secretary and other Defense officials, and (3) audits of Department of Defense headquarters, unified commands, specified commands, and Defense agencies.

AUTHORITY TO PROVIDE POLICY  
AND PROCEDURAL DIRECTION

In our opinion, the Deputy Assistant Secretary should be delegated the responsibility and authority to provide policy and procedural direction on internal audit matters to the military services and other Defense internal audit agencies. Further, we believe the Deputy Assistant Secretary's responsibilities for policy development and review of agency implementation should be merged with his responsibilities for internal audit operations of the Defense Audit Service.

Public law sets the stage for accomplishment of duties and responsibilities of the Comptroller and Deputy Assistant Secretary. But, because both of these positions are essentially staff positions, attempts to prescribe and insure that internal audit policy is carried out is, of necessity, accomplished on an advisory basis. Both the Assistant Secretary and Deputy Assistant Secretary have adopted a policy of mutual cooperation with service Secretaries and their line managers. The Deputy Assistant Secretary told us that in matters involving internal audit policy and its implementation, they have, through friendly persuasion, attempted to reach mutual understandings to carry out their responsibilities. We believe this approach is both practical and consistent with basic line-staff management relationships.

The approach has not always been successful, however, and significant internal audit problems and recommended solutions have not always been brought to the attention of the Secretary or Deputy Secretary of Defense.

For example, in our draft report on the Army's internal audit function, a copy of which was provided to you on March 15, 1977, we suggested that, to provide for more effective Defense internal auditing consistent with our standards, the Congress amend the National Security Act to require placing internal audit functions of the three military departments under the Secretary or Under Secretary of the respective military departments and have the internal auditors report directly to those officials. We suggested this because we found that the scope of internal audit work of the Army Audit Agency had been unnecessarily restricted. As a result, top Army managers could not realize the full benefit of the management control function provided by internal audit.

The Comptroller and Deputy Assistant Secretary were aware of the problems in the Army and had unsuccessfully attempted through negotiation and friendly persuasion to prevent the restrictions and other problems from occurring.

We believe that this situation arose, partly because of the staff relationship of the Comptroller to the Secretary of Defense and service Secretaries and partly, we believe, because the matter was never reported to the Secretary of Defense. Also, we were told that in considering whether to bring matters involving internal audit to the attention of the Secretary and/or Deputy Secretary of Defense, the Comptroller must give consideration to higher priority areas. Consequently, few matters involving internal audit, as a practical matter, would be brought to the attention of the Secretary and Deputy Secretary of Defense.

While this is a normal part of the decisionmaking process, the Deputy Assistant Secretary is charged with the responsibility for evaluating and reporting on policy implementation in each of the military services. Consistent with Department of Defense and our reporting standards, we believe that evaluations and reports must be made as a matter of record.

In our opinion, a decision that internal audit matters are of relatively low priority and should not be brought to the attention of higher management levels is inconsistent with our standards. Further, such decisions cannot always best be reached without a complete evaluation and formal report being made. Our report on the Army's internal audit functions, discussed on page 3, is a case in point.

#### AUDIT RESOURCES

Including the Deputy Assistant Secretary, a total staff of 21, consisting of 15 professional and 6 administrative personnel, is assigned to assist the Deputy Assistant Secretary in carrying out functional responsibilities for developing and reviewing internal audit policy in all Defense internal audit agencies.

In the Defense Audit Service, the Deputy Assistant Secretary has an authorized personnel strength of 367. Currently, the Defense Audit Service has a total of 356 staff on board to carry out the Deputy Assistant Secretary's internal audit operations responsibilities. While the Deputy Assistant Secretary has a combined audit policy and operations strength of 377 personnel this may not be enough to carry out all of his assigned responsibilities.

In our report, "Actions Needed to Strengthen the New Defense Internal Audit Service" (FGMSD-77-11), January 27, 1977, we noted that the reorganization which established the

Defense Audit Service, combined the work of the old office of audit operations with a broader responsibility for Defense-wide reviews. We also noted that a staff reduction of 15 percent was made without first determining whether the remaining staff was adequate to perform that work. We recommended that the Secretary of Defense assess both the minimum required workload and the capability of the planned staff to do the work and that appropriate consideration be given to bringing workload and staff capability into balance.

The Secretary agreed with our recommendation and on March 25, 1977, said the assessment would be made as soon as practicable, and the workload and staff capability would be brought into balance.

The assessment has not yet been completed. However, in October 1976, the Deputy Assistant Secretary estimated that the Defense Audit Service needed a total of 698 spaces to accomplish the projected annual audit workload. With an authorized strength of only 367 in the Defense Audit Service and a combined staff of only 377 on board to carry out both audit policy and audit operations responsibilities, it appears unlikely that all required work can be accomplished by the existing staff. Further, a recent Department of Defense press release indicated that an additional 25 percent staff reduction may be required by the Secretary.

On the policy side, the Deputy Assistant Secretary told us that he has sufficient staff to develop internal audit policy. He also said that he had identified several areas where improvements were needed to carry out audit policy requirements including

- strengthening the audit policy role,
- reviewing and evaluating DOD audit operations,
- improving audit workload planning,
- establishing career development and training standards,  
and
- establishing audit followup capabilities.

According to the Deputy Assistant Secretary, several projects to bring about these improvements are now underway. We noted that one of the projects, a study of the interface of audit, inspection, internal review, and other DOD study

groups is underway and jointly staffed by the Deputy Assistant Secretary's policy staff and the military service audit agencies. Two Defense Audit Service staff members are participating.

### CONCLUSIONS

The Assistant Secretary of Defense (Comptroller) has adequate authority to provide policy and procedural direction to the military services internal audit agencies; the Deputy Assistant Secretary of Defense (Audit) does not. Instead, the Deputy Assistant Secretary, who also has operational audit responsibilities as Director of the Defense Audit Service, only has the authority to develop policy and evaluate the implementation of policies approved by the Comptroller.

The Deputy Assistant Secretary's policy, operational audit, and reporting responsibilities should not be separate. Instead, the internal audit function, including internal audit policy, should be merged under one internal audit organization. Audit policy formulation is best developed when it is made as a result of knowledge gained through first-hand experience and should not be made independently of the audit function.

The Deputy Assistant Secretary should periodically review the implementation of policy and procedural directives by the military services and other internal audit organizations in the Department of Defense and should provide formal, written reports on policy violations directly to the Secretary and Deputy Secretary of Defense.

While the Deputy Assistant Secretary may have adequate resources to carry out policy development responsibilities, it is unlikely that the staff is sufficient to review agency implementation of those policies given the limited staff available in the Defense Audit Service and priority lines of work. Combining the policy and operational audit functions under one office would facilitate assessment of policy and audit operations priorities and the identification of respective resource needs.

### RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

To improve the internal audit function in the Office of the Secretary of Defense, we recommend that the Secretary of Defense:

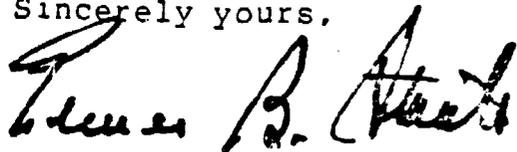
- Combine the audit policy, audit operations, and reporting functions into one functional organization.
- Require the head of the combined organization to periodically review the implementation of policy and procedural directives by the military services and other internal audit organizations in the Department of Defense, and provide formal, written reports on policy violations directly to the Secretary or Deputy Secretary of Defense.
- Give careful consideration to required workload and the capabilities of the staff to perform that workload and to bring the two into balance before making further staff reductions in the internal audit function.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

As arranged with your office, we are sending copies of this report to the Secretary of Defense, the Assistant Secretary of Defense (Comptroller), and the Deputy Assistant Secretary of Defense (Audit). As you requested, we did not obtain written comments from the Department of Defense. Your office requested that we make no further distribution of the report prior to committee hearings at which the report will be used. The hearings are now scheduled to be held on July 27, 1977.

Sincerely yours,



Comptroller General  
of the United States

Enclosure

PRINCIPAL DEPARTMENT OF DEFENSE OFFICIALS  
RESPONSIBLE FOR ADMINISTERING ACTIVITIES

DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<b>SECRETARY OF DEFENSE:</b>		
Harold Brown	Jan. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
William P. Clements, Jr. (acting)	Nov. 1975	Nov. 1975
James R. Schlesinger	July 1973	Nov. 1975
<b>ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):</b>		
Fred P. Wacker	Sept. 1976	Present
Terence E. McClary	June 1973	Aug. 1976
Donald Brazier (acting)	Jan. 1973	June 1973
Robert Moot	Aug. 1968	Jan. 1973
<b>DEPUTY ASSISTANT SECRETARY OF DEFENSE (AUDIT):</b>		
Frank S. Sato	Aug. 1974	Present
Joseph P. Welsch	Sept. 1971	Aug. 1974